ANNUAL REPORT

FISCAL YEAR 1998-99

Public Utilities Commission
State of Hawaii

December 1999

PUBLIC UTILITIES COMMISSION

The Hawaii Public Utilities Commission is responsible for regulating all chartered, franchised and certificated public service companies that provide electricity, gas, telephone, telecommunication, private water and sewage, and motor and water carrier transportation services in the State. The Commission has quasi-judicial authority to establish and enforce administrative rules and regulations, and set policies and standards.

History The Commission was established by Act 89, Session Laws of Hawaii (SLH) 1913, as a part-time, three-member body with broad regulatory oversight and investigative authority over all public utility companies doing business in the Territory of Hawaii. This act, amended over the years and codified in chapter 269 of the Hawaii Revised Statutes (HRS), is the basis for utility regulation in Hawaii. The Commission's authority to regulate various classes of motor carriers of passengers and property is derived from the Hawaii Motor Carrier Law (HRS c. 271) enacted in 1961. Responsibility for all commercial water transportation carriers of persons and property within the State is derived from the Hawaii Water Carrier Act of 1974 (HRS c. 271G).

Today, the Commission is a full-time body comprised of three commissioners. The commissioners are appointed by the Governor, with the consent of the State senate, to serve six year terms on a staggered basis.

Objective and Activities The primary objective which guides the Commission in carrying out its regulatory functions is to ensure that customers of the regulated companies receive adequate and efficient services at reasonable and fair rates, while providing a fair return to the regulated companies. In order to accomplish this objective, the Commission performs the following activities:

- Adopts rules and regulations governing the operations, standards of services and facilities, and fiscal management of utilities, including procedures and practices of the Commission.
- Prescribes rates, tariffs, charges and fees, and determines the allowable rate of earnings in establishing rates.
- Issues orders and guidelines concerning the general management and operations of chartered, franchised or certificated utility businesses.
- Acts on applications for certification and for the extension or abandonment of services.
- Prescribes the methods, service, and annual rates of depreciation for utility properties.
- Acts on requests for the acquisition, sale, disposition or other exchange of utility properties, including mergers and consolidations.
- Acts on requests for the issuance and disposition of securities and other evidences of long-term indebtedness.

Administration and Offices The Commission is placed, for administrative purposes, under the State Department of Budget and Finance. The Commission has a staff of 34 employees, including three commissioners, an administrative director, lawyers, engineers, accountants, researchers, investigators, a chief clerk, clerical staff and neighbor island representatives for Maui, Kauai and Hawaii.

The Commission has four offices located throughout the State:

OAHU: Public Utilities Commission
Kekuanaoa Building
465 South King Street, #103
Honolulu, HI 96813
Phone: 586-2020

MAUI: PUC Maui District Office
State Office Building #1
54 High Street, #218
Wailuku, HI 96793
Phone: 984-8182

KAUAI: PUC Kauai District Office
3060 Eiwa Street, #302-C
Lihue, HI 96766
Phone: 274-3232

HAWAII: PUC Hawaii District Office
688 Kinoole Street, #106-A
Hilo, HI 96720
Phone: 974-4533

COMMISSIONERS DURING THE FISCAL YEAR 1998-99

Dennis R. Yamada, Chairman

Dennis Yamada was appointed to the Commission by Governor Waihee in July 1994. He was named Chairman of the Commission in August 1998.

Yamada was engaged in private law practice prior to his appointment. He is a former member of the State House of Representatives and the University of Hawaii Board of Regents. He has also served as Deputy Corporation Counsel for the City and County of Honolulu.

Yamada received a bachelor of business administration degree from Drake University and a juris doctor degree from Drake University School of Law. His term expires June 2004.

Rae M. Loui, Commissioner

Rae Loui was appointed to the Commission by Governor Benjamin Cayetano in January 1998.

Prior to her appointment, Loui served as Deputy to the Chairperson of the Commission on Water Resource Management. Loui has worked in various positions at Pacific Gas and Electric Company and Hawaiian Electric Industries, Inc. Loui also has served as Director of Maui County's Department of Water Supply.

Loui received a bachelor of science degree and a masters degree in civil engineering from Stanford University. She also holds a masters degree in business administration from the University of California at Berkeley. Her term expires June 2002.

Gregory G. Y. Pai, Ph.D., Commissioner

Gregory G. Y. Pai was appointed to the Commission by Governor Benjamin Cayetano in August 1998 to fill the vacancy left by former Chairman Yukio Naito.

Prior to his appointment, Pai served as Chief Economist for First Hawaiian Bank and Director of the Office of State Planning. He also served as Special Assistant to the Governor for Economic Affairs under Governor John Waihee.

Pai received a bachelor of arts degree in architecture from the University of Hawaii and a master of arts degree in architecture from Harvard University. He also holds a doctor of philosophy degree in economics and regional planning from the Massachusetts Institute of Technology. His term expires June 2000.

ANNUAL REPORT FOR THE FISCAL YEAR

1998-99

This report presents an overview of the activities of the Public Utilities Commission during the period of July 1, 1998 through June 30, 1999. The report is organized in four parts:

Part I summarizes the significant regulatory proceedings of the Commission.

Part II describes enforcement activities and includes statistics on consumer complaints.

Part III includes Commission-related legislation enacted by the 1999 Hawaii State Legislature.

Part IV presents statistics on the number of dockets opened and completed during the fiscal year.

I.

SUMMARY OF REGULATORY PROCEEDINGS

The Commission is responsible for regulating 266 utility companies, 2 water carriers, and 910 passenger and property carriers in the State of Hawaii. This fiscal year, the Commission opened 417 dockets, and issued 662 decisions and orders related to the regulated utilities and transportation carriers. The Commission also approved over $19 million in utility capital improvements.

Key proceedings in the regulation of rates resulted in the approval of an interim rate increase of $11.7 million and a final rate increase of $11.3 million for Maui Electric Company, Ltd. (MECO).

Commission activities in the area of telecommunications focused on expediting competition in the local industry marketplace. This fiscal year, the Commission certificated 50 new telecommunications companies providing various intrastate telecommunications services. In January 1999, the Commission issued an order addressing the issues relating to unbundled network elements, wholesale prices, non-recurring charges, and other issues in the communications infrastructure docket. In the consolidated pay telephone docket proceeding, the Commission readopted the parties' consensus statements to resolve the issues of the docket.

The following sections highlight the significant proceedings of the Commission.

ELECTRICITY

The Commission regulates four electric utility companies engaged in the production, purchase, transmission, distribution, and sale of electric energy in the State: Hawaiian Electric Company, Inc. (HECO) on the island of Oahu; Maui Electric Company, Ltd. (MECO) serving the islands of Maui, Lanai, and Molokai; Hawaii Electric Light Company, Inc. (HELCO) on the island of Hawaii; and Kauai Electric Division of Citizens Utilities Company (KE), a subsidiary of Connecticut-based Citizens, serving the island of Kauai. MECO and HELCO are wholly owned subsidiaries of HECO, which is in turn a wholly owned subsidiary of Hawaiian Electric Industries, Inc. (HEI).

HECO, MECO, HELCO, and KE proceedings include the following:

Rate Proceeding The Commission's general rate increase proceedings on applications filed by MECO and HELCO are described below.

MECO Granted Interim and Final Rate Increase In January 1998, MECO filed an application, as amended, for approval of a $16.4 million general rate increase. MECO proposed to implement the increase in two steps, an interim step increase and a final step increase.

In December 1998, the Commission approved a rate increase of $11.7 million on an interim basis. In April 1999, the Commission issued a decision authorizing a final general rate increase of $11.3 million in additional revenues. As a result of the excess increase granted in its interim decision, the Commission ordered the company to refund its ratepayers any amount collected in excess of the final rate increase.

HELCO Withdraws Application for Rate Increase In March 1998, HELCO applied for a $17.3 million general rate increase. The application was subsequently withdrawn on March 9, 1999 due to delays in its plans to add new generation to its system and to purchase capacity from an independent power producer.

Integrated Resource Planning (IRP) Activities The Commission's IRP guidelines, adopted in May 1992, require each energy utility to develop a long-range, twenty-year IRP and a medium-range, five-year program implementation schedule (action plan). The utility must submit to the Commission a triennial review of its IRP, and an annual update of its action plan. Subject to Commission review and approval, the utility is authorized to earn demand-side management (DSM) shareholder incentives and to recover IRP program costs and DSM net lost revenues.

Below is a summary of the status of electric utility IRPs and action plans as of June 30, 1999.

HECO's revised IRP was filed in January 1998. Position statements from the parties are due July 30, 1999.

MECO's first IRP and action plan were approved in May 1996. MECO filed its second annual evaluation report in July 1998. In January 1999, the Commission opened a docket to begin MECO's next integrated resource planning cycle. The company's revised IRP is due September 1, 1999.

HELCO's first IRP and action plan were approved in May 1996. The company's revised IRP was filed in September 1998.

KE's first IRP was filed in April 1997. In July 1998, the company filed its annual update of the IRP.

Power Purchase Agreements The Commission held the following proceedings relating to power purchase agreements between HELCO and independent power producers.

HELCO and Hilo Coast Processing Company (HCPC) Power Purchase Agreement (PPA) In April 1997, HCPC filed a complaint against HELCO alleging that HELCO failed to finalize HCPC's offer to increase its firm capacity commitment under a new power purchase agreement with HCPC. The Commission subsequently converted the docket to a proceeding for the review of HCPC's offer. The existing agreement expires at the end of 1999.

In February 1999, HCPC and HELCO submitted status reports addressing the issues of the negotiations. Based on these reports, the Commission reopened the proceeding to further assist the parties in negotiating an agreement. In June 1999, the Commission ordered HELCO and HCPC to submit to the Commission a finalized power purchase agreement no later than July 30, 1999. If no agreement is reached, the parties are required to submit written reports with a list of the contested issues and a statement of the parties' positions on each issue.

In September 1998, the Commission approved HELCO's application to recover its firm capacity payments and related revenue taxes, in the total amount of $111,553, arising from a letter of agreement in which HCPC agreed to continue its delivery of capacity to HELCO during one of HCPC's overhaul periods which was canceled. HELCO was allowed to recover its costs over a two-month period through a firm capacity surcharge.

HELCO and Cyanotech Corporation (Cyanotech) In April 1999, the Commission approved HELCO's application to include the purchased energy costs it incurs under its PPA with Cyanotech in its fuel adjustment clause. Cyanotech owns and operates a small power production facility, located in

Kailua-Kona, consisting of a topping-cycle cogeneration system with three 235 kW diesel generators.

KE Fuel Contract Approved In December 1998, the Commission approved KE's new fuel supply contract with Chevron Products Company for the purchase of jet fuel and diesel fuel. The term of the contract commenced on January 1, 1999 and terminates on December 31, 2002. KE was allowed to include the net cost effect of the new fuel contract in its energy rate adjustment clause from and after January 1, 1999.

HECO, MECO, and HELCO Financing Approved In September 1998, the Commission authorized the issuance and sale of up to $8 million of MECO common stock and up to $12 million of HELCO common stock to HECO. The proceeds of the common stock sold to HECO will be used to finance capital expenditure programs and to repay portions of each company's short-term borrowings.

In December 1998, HECO, MECO, and HELCO were authorized to participate in Cumulative Quarterly Income Preferred Securities (QUIPS) financing and to issue indebtedness of up to $30 million for HECO and $10 million each for MECO and HELCO. The proceeds of the QUIPS financing will be used for capital expenditures and/or repayment of portions of existing obligations. The QUIPS financing is a method of obtaining capital at lower borrowing costs resulting from the tax deductible interest payments on debentures that support the QUIPS.

In June 1999, HECO, MECO, and HELCO were granted approval to participate in the sale by the State Department of Budget and Finance (B&F) of refunding special purpose revenue bonds. The Commission authorized HECO, MECO, and HELCO to borrow from B&F or its trustee up to a total of $46,000,000, $10,000,000, and $25,400,000, respectively. The proceeds of the refunding bonds will be used to redeem the Series 1984, 1988, and/or 1990A bonds.

Sale of HECO's Properties Approved In April 1999, the Commission approved the sale of HECO's Makiki, Wilder, Kuliouou, Waianae, and Lilipuna substation sites and the Kahaluu Transmission Corridor. The Commission determined that HECO sufficiently demonstrated that the properties are no longer necessary for the provision of electric services and the proposed sale does not interfere with the performance of its duties.

HECO's Proposed Overhead Subtransmission Line Project Approved In January 1999, HECO requested approval to install a 46 kV overhead subtransmission line to the Menoher substation on Schofield Barracks. Whenever a public utility applies to the Commission for approval to place, construct, erect or otherwise build a new 46 kV or greater high-voltage electric transmission system, Section 269-27.6, HRS, requires the Commission to determine whether the proposed system shall be placed overhead or underground.

Based on its review, the Commission found that the installation of the subtransmission line, above ground, is reasonable and, in March 1999, approved HECO's application to install a 46 kV subtransmission line, above ground.

Capital Expenditures Approved In fiscal year 1998-99, the Commission approved expenditures totaling over $8 million for electric utility capital improvements.

HECO was authorized to expend $4.9 million for its capital improvements. Expenditures include $1.7 million for the conversion from overhead to underground within the Kakaako Redevelopment District, $1.5 million for the Kapolei Farrington Highway improvement 12 kV underground project, $0.9 million for the installation of the Kahe 6 burner management system, and $0.8 million for the re-installation of Waiau #42 46 kV circuit.

MECO was authorized to expend $1.4 million for the Kula residence lots, Unit 1 project.

KE was authorized to expend $1.4 million for the purchase, installation, and operation of the proposed SCADA/EMS system and $1.0 million for the asbestos removal at the Port Allen generating station.

GAS

Citizens Utilities Company, dba The Gas Company (TGC) is a duly franchised public utility providing gas service throughout the State of Hawaii. TGC's operations consist of the purchase, production, transmission, and distribution through gas pipelines, and sale for residential, commercial, and industrial uses of synthetic natural gas (SNG) and liquid propane gas.

Proceedings involving TGC include the following:

TGC's IRP Activities In August 1996, TGC was ordered to commence its next IRP cycle. In March 1999, TGC filed its revised IRP with the Commission.

Waiver of General Order No. 9 (G.O. No. 9) In December 1998, the Commission approved TGC's request for waiver of G.O. No. 9, *Standards for Gas Service, Calorimetry, Holders and Vessels in the State of Hawaii*, requirements for the replacement of two calorimeters at its SNG plant. This waiver allows TGC to replace the existing calorimeters with ones which are beyond the scope approved under G.O. No. 9.

TELECOMMUNICATIONS

The Commission oversees the cellular, paging, mobile telephone, and interisland data transmission services of telecommunications providers in addition to the services of GTE Hawaiian Telephone Company Incorporated (GTE Hawaiian Tel), the State's largest provider of intrastate services.

Key activities in telecommunications are highlighted below.

Development of the State's Communications Infrastructure Activities in the Commission's ongoing communications infrastructure docket, Docket No. 7702, opened in May 1993, have focused on the development of the infrastructure necessary to support the introduction, deployment, and use of advanced communications technologies and services in the State of Hawaii. Last fiscal year, the Commission held hearings on Phase 2 issues of Docket No. 7702.

In January 1999, the Commission issued an order addressing issues relating to unbundled network elements, wholesale prices, non-recurring charges, pricing, and other issues as described below.

> <u>Unbundled network elements</u> The Commission selected GTE Hawaiian Tel's approach (referred to as COSTMOD), with adjustments specified in the Commission's order, for determining loop costs and costs of other unbundled network elements. GTE Hawaiian Tel is required to submit prices for its unbundled network elements based on "total element long run incremental cost" (TELRIC) that assumes GTE Hawaiian Tel's current wire centers, but also assumes the most efficient, new technology. The Commission required GTE Hawaiian Tel, in calculating the costs of unbundled loops, to make adjustments to certain assumptions and methodologies. In calculating the costs of all unbundled network elements and non-recurring charges, GTE Hawaiian Tel is also required to make adjustments to certain assumptions and methodologies. Pursuant to the Commission's order, loop costs will not be allocated to intrastate toll/switched access services.
>
> The Commission also addressed other issues relating to deaveraging loop costs, elements to be offered on an unbundled basis, dark fiber, common costs, loop costs as common costs, and combining network elements.
>
> <u>Wholesale prices</u> The Commission ordered GTE Hawaiian Tel to offer to competitive local exchange carriers (CLECs) its retail services at wholesale, based on a discount rate of 15 per cent, and to offer at wholesale all services it sells at retail to subscribers who are not telecommunications carriers.

<u>Non-recurring charges</u> The Commission allowed GTE Hawaiian Tel to recover the non-recurring charges it incurs in processing CLECs' orders for unbundled network elements and for wholesale services. GTE Hawaiian Tel is not allowed to impose any changeover or disconnect charge on customers who change from GTE Hawaiian Tel's services to CLECs' services. GTE Hawaiian Tel is also not allowed to impose, as a matter of course, a charge for billing inquiries.

<u>Pricing for collocation, pole access, transport and termination</u> The Commission ordered GTE Hawaiian Tel to review its proposed collocation fees and submit new charges. GTE Hawaiian Tel is required to formulate its rates for access and attachments to its poles, ducts, conduits, and rights-of-way as prescribed by the Federal Communications Commission (FCC). The Commission established bill-and-keep as the method of mutually compensating the carriers for the transport and termination of traffic from one to another, until such time that local traffic gets out of balance by more than 10 per cent. The Commission also ordered that all local calls are subject to transport and termination compensation, including calls made to information service providers (ISPs).

<u>Universal service</u> The Commission ordered that certain components of its universal service program shall remain unchanged. These components include: (1) the basic service elements; (2) the telecommunications carriers' contributions to the universal service fund; (3) recovery of contributions to the fund by carriers; (4) the criteria for determining high cost areas in the State; (5) the method of selecting a carrier of last resort (COLR) and the selection of only one COLR; and (6) the use of the universal service fund.

Pursuant to the Commission's order, GTE Hawaiian Tel filed recalculated prices, costs, and other data. Informal proceedings, including informational workshops, are scheduled to be held next fiscal year to facilitate the review of GTE Hawaiian Tel's revised data. In March 1999, the Commission's decision was appealed to the Hawaii Supreme Court.

In 1996, the Commission consolidated all applications for providing pay telephone service to facilitate the introduction of competition in pay telephone service. In an interim order, the Commission adopted the parties' statements of the consensus document setting forth the contested issues. In April 1999, the Commission readopted the consensus statements of the parties to resolve the issues in the consolidated docket proceeding. The Commission also set the permanent rate for access lines to certified independent payphone providers (IPP) at GTE Hawaiian Tel's flat business rate. GTE Hawaiian Tel was ordered to offer to certified IPPs on a permanent basis the fraud protection services and features in the same manner that it provides these services to its own pay telephone operations.

Carrier Certification and Merger Applications The Commission certificated 50 new telecommunications companies this fiscal year, including 14 providers of local exchange, wireless, mobile radio, and pay telephone services; and 36 resellers of various intrastate cellular, calling card, and interexchange (long-distance) telecommunications services.

The Commission approved 12 applications for acquisitions and mergers involving certificated telecommunications companies that provide paging, commercial mobile radio, and resold services.

In October 1998, GTE Corporation (GTE) and Bell Atlantic Corporation (Bell Atlantic) filed an application requesting approval to transfer control of GTE to Bell Atlantic. In May 1999, the parties, which include the Consumer Advocate, Time Warner Communications of Hawaii, L.P. dba Oceanic Communications, Sprint Communications Company L.P., AT&T Communications of Hawaii, Inc., GST Telecom Hawaii, Inc., retirees of GTE Hawaiian Tel, and the International Brotherhood of Electrical Workers Local 1357, filed position statements with the Commission.

Interconnection Agreements Approved The Federal Telecommunications Act of 1996 and Hawaii Administrative Rules (HAR) Section 6-80-53 authorized parties to petition the Commission to arbitrate any unresolved issues in negotiating an agreement with GTE Hawaiian Tel for access, interconnection, unbundling, or network termination.

During the fiscal year, the Commission approved the following interconnection agreements between telecommunications service providers and GTE Hawaiian Tel.

Hawaiian Wireless, Inc. (HWI) An interconnection agreement filed by HWI and GTE Hawaiian Tel was approved by the Commission in February 1999. HWI is a certified provider of commercial radio services in the State.

Nextel West Corp. (Nextel) In February 1999, the Commission approved the interconnection agreement submitted by GTE Hawaiian Tel and Nextel. Nextel is a certified provider of commercial radio services in the State.

Sprintcom, Inc., dba Sprint PCS (Sprint PCS) In February 1999, the Commission approved the interconnection agreement submitted by GTE Hawaiian Tel and Sprint PCS. Sprint PCS is a certificated provider of commercial radio mobile services in the State.

TelHawaii, Inc. (TelHawaii) In July 1998, the Commission approved the operator services agreement filed by GTE Hawaiian Tel and TelHawaii. TelHawaii is a certified provider of local dial-tone service for the rural service area of Ka'u on the island of Hawaii.

Last fiscal year, GTE Hawaiian Tel and TelHawaii received the Commission's approval of agreements for interconnection, E911 service, telecommunications relay service, pole attachment, and conduit occupancy. TelHawaii later filed a petition requesting the Commission to arbitrate and determine open issues relating to the agreements between the two providers. In October 1998, the Commission resolved the open issues and ordered the parties to submit an interconnection agreement incorporating the results of its order. In February 1999, the Commission approved the amended interconnection agreement filed by GTE Hawaiian Tel and TelHawaii.

Eligible Telecommunications Carrier (ETC) Designated In December 1998, Sandwich Isles Communications, Inc. (SIC) was designated the ETC under federal law for the service area consisting of the lands administered by the Department of Hawaiian Homes Lands (DHHL). Federal law provides that only a common carrier designated as an ETC is eligible to receive specific federal universal service support. SIC is a certified provider of intraLATA and intrastate telecommunications services on DHHL's lands.

Financing for SIC Approved In April 1999, the Commission granted SIC approval to issue a Rural Telephone Bank (RTB) mortgage note not to exceed $10,249,050 and a Rural Utilities Service (RUS) mortgage note not to exceed $17,433,000. The RTB and RUS are agencies of the U.S. Department of Agriculture from which SIC obtained loans to fund the construction of its telephone network that will provide service to the lands administered by DHHL.

GTE Hawaiian Tel License Agreement Approved In November 1998, the Commission approved GTE Hawaiian Tel's application to license ground space at the Tantalus repeater station and tower space at the Puu Papaa radio station to GTE Media Ventures Incorporated (GTE Media Ventures), an affiliate company of GTE Hawaiian Tel. The space will be used for the operation and maintenance of equipment for digital television services. GTE Media Ventures will pay GTE Hawaiian Tel a monthly licensing fee and a one-time administrative fee for legal costs.

Capital Expenditures Approved During the fiscal year, GTE Hawaiian Tel received approval to commit over $10 million for capital improvements. Expenditures include $2.5 million for the North Kihei relief project on the island of Maui, $1.7 million for the replacement of operator services systems and equipment, $1.7 million for the installation of the monitoring system and related facilities at the Punahou and Waipahu central offices, $1.6 million for the Kona interoffice relief project, $1.5 million for the installation of a CML ECS1000 system to provide E911 service, $0.9 million for the Honoapiilani Highway relocation project, and $0.7 million for the Kamehameha Highway facilities underground project.

PRIVATE WATER AND SEWAGE UTILITIES

The Commission regulates 29 privately owned water and sewage treatment utilities that serve suburban, rural, and resort areas throughout the State. The majority of these utilities are located on the neighbor islands.

Kaanapali Water Corporation (KWC) Sale of Stock Approved In May 1999, the Commission approved the acquisition of the stock of KWC from Amfac Property Investment Corp. (Amfac) by Aquasource Utility, Inc. (Aquasource). Pursuant to the stock purchase agreement, Aquasource will purchase all of the outstanding stock from Amfac for approximately $5.5 million.

Transfer of Interests of CTF Hotel Sewage Treatment Corporation (CTF) In March 1999, the Commission approved the transfer of all of the interests of CTF and its affiliates in the Poipu Water Reclamation Facility to Marriott Ownership Resorts, Inc. The Poipu Water Reclamation Facility is a wastewater treatment plant that serves the Poipu area on the island of Kauai.

TRANSPORTATION CARRIERS

Motor Carriers

The Commission regulates 558 passenger carriers and 352 property carriers in the State. During this fiscal year, new certificates or permits were issued to 37 passenger carriers and 9 property carriers.

Passenger carriers are classified by authorized vehicle seating capacity. They include tour companies, limousine services, and other transportation providers.

Property carriers are classified by the types of commodities transported and the nature of services performed, namely: general commodities, household goods, commodities in dump trucks, and specific commodities.

By law, taxis, school and city buses, ambulance services, refuse haulers, farming vehicles, and persons transporting personal property are exempt from Commission regulation.

Many of the State's motor carriers belong to either the Western Motor Tariff Bureau, Inc. (WMTB) or the Hawaii State Certified Common Carriers Association (HSCCCA). WMTB and HSCCCA are nonprofit organizations engaged in the research, development, and publication of motor carrier tariffs. The two organizations represent their members in proceedings before the Commission.

Motor carrier proceedings include the following:

Property Carriers Rate Increase Withdrawn In December 1998, WMTB filed an application to increase statewide household goods rates by 6 per cent. WMTB filed a notice to withdraw its request for the general rate increase on February 3, 1999.

WMTB Fuel Surcharge Suspended In December 1998, the Commission suspended the fuel surcharge adjustments incorporated in tariffs filed by WMTB. The suspension of the fuel surcharge is intended to facilitate the updating of the baseline parameters used in the fuel surcharge calculation and the modification of the surcharge mechanism.

Water Carriers

The Commission regulates two water carriers: Young Brothers, Limited (Young Brothers), a wholly owned subsidiary of HEI and a provider of interisland cargo service; and Hone Heke Corporation (Hono Heke), a passenger and cargo carrier.

Water carrier proceedings include the following:

Young Brothers General Rate Increase Withdrawn In January 1998, Young Brothers filed its notice of intent to file an application for a general rate increase. The company withdrew its notice of intent on October 30, 1998.

Young Brothers Sale of Barge Approved In November 1998, the Commission approved Young Brothers' application to sell the Kaholo barge. The Commission required Young Brothers to amortize the net gain realized from the sale of the barge over a period of one year.

II.

ENFORCEMENT ACTIVITIES

The Commission enforces its rules and regulations, standards, and tariffs by monitoring the operating practices and financial transactions of the regulated utilities and transportation carriers. Two of the more significant enforcement activities involve customer complaint resolution and compliance with financial reporting requirements.

COMPLAINT RESOLUTION

The Commission accepts verbal and written complaints. Verbal complaints are received by telephone, or in person at the Commission's office. Written complaints must specify the facts involved, and cite the law, tariff, or rule under alleged violation. There are two kinds of written complaints -- formal and informal, and the requirements of each are stated in the Commission's rules of practice and procedure, HAR, chapter 6-61.

Informal and Verbal Complaints

As shown in the table below, the Commission received a total of 899 informal and verbal complaints in calendar year 1998 against regulated and unregulated utilities and transportation companies. This is a 34 per cent decrease over 1997 complaints. Complaints on Oahu amounted to 572 out of 899 complaints statewide, or 64 per cent of the total complaints.

The majority of complaints (593) involved telecommunications providers. GTE Hawaiian Tel received 263 complaints, mostly relating to service (availability, interruptions, and practices and procedures) problems, tariffs, and billing practices. The cellular and paging companies received 33 complaints, mainly related to billing practices. Most of the 297 complaints filed against other telecommunications providers, including interstate and unregulated communications equipment and service companies, related to the business practices of long distance carriers.

The electric utilities received 118 complaints, relating to service (interruptions, and damages and claims processing) problems, tariffs, and billing practices. The complaints against the gas utility (21), and water and sewer facilities (7) were primarily over service problems, tariffs, and billing practices. The complaints (5) against water carriers involved scheduling and delays, insurance damages and claims, and charges. Of the 155 complaints filed against motor carriers, the majority involved passenger and property carriers operating without CPCNs.

Informal and Verbal Complaints
Filed in Calendar Year 1998

	Oahu	Hawaii	Maui	Kauai	1998 Total	1997 Total
Telecommunications:						
GTE Hawaiian Tel	168	67	15	13	263	504
Cellular and Paging	18	8	6	1	33	49
Other Providers	233	43	8	13	297	330
Total Telecom	419	118	29	27	593	883
Electricity	45	41	11	21	118	169
Gas	11	10	0	0	21	56
Water/Sewer	2	4	0	1	7	23
Water Carrier	0	1	0	4	5	6
Motor Carrier	95	29	26	5	155	231
Total Other	153	85	37	31	306	485
Total Complaints	572	203	66	58	899	1,368

FINANCIAL REPORTING

The Commission's general orders require the submittal of financial reports and payment of revenue fees by all regulated utilities and transportation carriers.

During the fiscal year, the Commission issued 65 show cause orders to motor carriers who failed to submit financial reports and pay required revenue fees. Interest and penalties collected for the late payment of revenue fees totaled $72,486. The CPCNs of 41 motor carriers were revoked for lack of compliance with financial reporting requirements.

MOTOR CARRIER CITATIONS

The Commission receives assistance from the State Department of Transportation, through the assignment of a motor vehicle safety officer, to issue civil citations for violations of the Motor Carrier Law, Chapter 271, HRS. The citations impose a civil penalty, typically $500 or $1,000 per violation. Civil penalties collected through motor carrier citations totaled $12,850 this fiscal year.

III.

LEGISLATION

The 1999 Hawaii State Legislature enacted the following measures relating to the Public Utilities Commission:

Facilitating the Provision of Motor Carrier Service for Which There is an Immediate and Urgent Need To facilitate the provision of motor carrier service for which there is an immediate and urgent need, Act 16 amends Section 271-16, HRS, by deleting the requirement that every application for temporary authority be accompanied by proof of service upon every current holder of a CPCN in the classification for which temporary authority is applied.

Developing Fiscal Self-Sufficiency for the Department of Commerce and Consumer Affairs (DCCA) Act 129 promotes fiscal self-sufficiency for DCCA by consolidating several of DCCA's funds under its Compliance Resolution Fund. Act 129 amends Section 269-33, HRS, by requiring the funds allocated by the Public Utilities Commission to the Division of Consumer Advocacy be deposited in the Compliance Resolution Fund. In addition to the Division of Consumer Advocacy Fund, Act 129 abolishes other DCCA funds and requires these funds and other revenues collected by DCCA to be deposited into the Compliance Resolution Fund. In order to track each division's revenues against its expenses, DCCA will continue to account for all sources of funding separately.

Promoting Universal Service In conjunction with facilitating the introduction of competition into the State's telecommunications marketplace, Act 225, Session Laws of Hawaii 1995, established the Universal Service Program and the Universal Service Fund (USF or fund) to, among other things, ensure the maintenance of affordable, just, and reasonable rates for basic residential service, and access to essential telecommunications service by low income or disabled customers, and customers in areas with high costs for basic service. Act 135, enacted in 1999, further promotes universal service by, among other things: (1) clarifying the USF's purpose, i.e., to implement the policies and goals of universal service; (2) amending Sections 36-27 and 36-30, HRS, to ensure that monies in the USF will not be diverted for other purposes or applied to defray central service or departmental administrative expenses; (3) clarifying that the fund shall be established outside the state treasury; and (4) clarifying that interest earned from the fund balance shall become part of the fund. To enable the Commission to begin carrying out the purposes of the Universal Service Program, Act 135 also appropriates $800,000 to be loaned from the Public Utilities Commission Special Fund to the USF for fiscal year 1999-2000.

Preventing Telemarketing Fraud Act 170 establishes a new chapter in the HRS, entitled the "Telemarketing Fraud Prevention Act" or TFPA, which regulates telemarketing activity in the State of Hawaii. Among other things, the TFPA establishes that it is an unfair or deceptive act for a telephone solicitor to make false representations, engage in abusive conduct, or fail to make certain disclosures to consumers. The TFPA also requires telephone solicitors to keep true and accurate records of all telemarketing activities initiated in the State of Hawaii or directed at consumers located in the State of Hawaii. Act 170 provides certain exemptions under the new chapter, including the sale of goods or services by telecommunications or landline (i.e. cable) or wireless video service providers for which the terms and conditions of the offering, production, or sale are regulated by the Commission or the FCC.

Promoting Wastewater Reuse and Recycling The 1999 Legislature passed Acts 255 and 288 for the purpose of promoting wastewater reuse and recycling. Act 255 facilitates the reuse of wastewater by excluding certain facilities which reclaim wastewater from the Section 269-1, HRS, definition of "public utilities." The Act, among other provisions,: (1) excludes from Commission regulation a facility that provides at least 10 per cent of the wastewater it processes for use by a state or county agency under a contract with that agency; and (2) prohibits an excluded facility from selling water to residential customers.

Act 288 further promotes the reuse of wastewater through water recycling by directing the Director of Health to give priority to the adoption of rules which: (1) define and establish the requirements of different categories of recycled water and reclaimed water; and (2) recognize different levels of water treatment and purpose. The Act further promotes water recycling by defining "recycled water" and "reclaimed water" as treated wastewater that by design is intended or used for a beneficial purpose.

Special Purpose Revenue Bonds Act 257 authorizes B&F, with the approval of the governor, to issue special purpose revenue bonds in the amount of $19,600,000 for TGC.

IV.

DOCKET STATISTICS

During fiscal year 1998-99, the Commission opened a total of 417 dockets. Of the 417 dockets, 262 or approximately 63 per cent were completed at June 30, 1999.

At the end of the fiscal period, 248 dockets were pending, including 93 dockets filed prior to fiscal year 1998-99.

Dockets Filed and Completed During FY 1998-99 and Dockets Pending at June 30, 1999

	Dockets Filed in Fiscal Year 98-99			Pending Dockets Filed Prior to FY 98-99	Total Dockets Pending at FY End
	Opened	Completed	Pending		
Utilities					
Electric	31	14	17	25	42
Gas	4	1	3	1	4
Telecommunications	118	78	40	17	57
Private Water/Sewage Companies	6	2	4	4	8
Subtotal	159	95	64	47	111
Transportation					
Motor Carriers	257	166	91	46	137
Water Carriers	1	1	0	0	0
Subtotal	258	167	91	46	137
Total	417	262	155	93	248

GLOSSARY OF TERMS

Central Office - a telephone company facility where subscriber lines are joined to switching equipment for interconnecting other customer lines and trunks, locally and long distance.

Certificate of Public Convenience and Necessity (CPCN), a certificate or permit issued by the Public Utilities Commission authorizing the operation of a utility or transportation carrier.

Cogeneration - the combined production of electric power and useful thermal energy, such as heat or steam.

Demand-Side Management (DSM), refers to reducing a consumer's demand for and use of energy through various programs, including conservation, load management, and efficiency resource programs.

Externalities - indirect costs and benefits, including (in IRP) the cost and beneficial impacts on the environment, people's lifestyle and culture, and the State's economy.

Federal Communications Commission (FCC) - the federal agency primarily responsible for regulating interstate communications.

Fiber Optic - the technology consisting of thin filaments of glass through which light beams are used to transmit data from one point to another.

General Rate Increase - an increase in the general level of rates or charges for all classes of customers.

Integrated Resource Planning (IRP) - a process by which utilities and regulatory commissions assess the cost of, and choose among, various resource options.

Interconnection - the interface of the network of one telecommunications carrier with that of another telecommunications carrier.

Interstate - between and among other states, U.S. territories, and the District of Columbia.

Intrastate - within the state; interisland.

Number Portability - the ability of a telephone service customer to retain, at the same location, an existing telephone number when changing service provider.

Small Power Production Facility - under the Public Utility Regulatory Policies Act, an electricity producer whose primary energy source is biomass, waste, renewable (wind, solar energy and water), or geothermal energy, or any combination thereof equal to more than 75% of the total energy input, with production capacity no greater than 80 megawatts.

Tariff - the entire body of approved rules and regulations, rates, charges and definitions of a regulated utility.

Universal service - the offering and providing of basic services to all customers at affordable, just, and reasonable rates.

Note: Definitions provided are limited to general usage in this report and are not necessarily legal definitions used in statutes, rules or regulations governing the Commission's activities.